

# **Alaska Telephone Association**

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May 7, 1996

William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Room 222  
Washington, D.C. 20554

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RE: CC Docket No. 96-45, Federal State Joint-Board on Universal Service

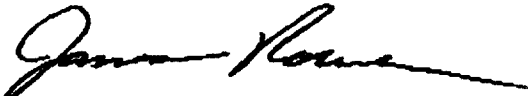
Dear Mr. Caton:

We agree with the Commission's conclusions that Universal Service, Access Reform and Interconnection are intertwined. Unfortunately, the complexity of the issue raises dire concerns for customers of high-cost, rural LECs whose access to modern, affordable telecommunications service may be destroyed in the rush to reform access regulations aimed primarily at the Bell Operating Companies.

The Alaska Telephone Association offers the following Reply Comments in an effort to assist the Commission with the issues raised in this NPRM.

Thank you for your attention.

Very Truly Yours,



James Rowe

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**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**

In the Matter of	)	
	)	CC Docket No. 96-45
Federal-State Joint Board	)	
on Universal Service	)	

**Alaska Telephone Association**

**Reply Comments**

The Alaska Telephone Association (ATA), a trade association representing 22 local exchange companies in the State of Alaska, respectfully submits these reply comments in the above referenced proceeding.

ATA concurs with the Commission's comments that Universal Service, Access Reform, and Interconnection are all intertwined. ATA is concerned, however, that the needs of the high-cost rural LECs (and legal requirements of the Act) are being overlooked in a rush to change access regulations and open Bell Operating Company networks to competition. The Commission should not allow interested parties to expand the Universal Service NPRM into a forum for access charge reform, or to subvert the Act's requirements for providing quality service in rural areas.

The comments need to be viewed in the context of the wording and intent of the Act regarding rural, high-cost areas:

What does the Act require?

What does the Act not require?

What does the Act not allow?

### **WHAT THE ACT REQUIRES**

1. The Act requires that universal service support mechanisms be predictable, specific, and sufficient to "preserve and advance universal service."
2. The Act requires that the funds distributed must be used only "for the provision, maintenance, and upgrading of facilities and services for which the support is intended."
3. The Act requires cost allocation rules and accounting safeguards to assure that universal service support is specifically targeted to local exchange facilities. This can only mean that Congress intended support to be based on actual cost.
4. The Act requires competitive neutrality.
5. The Act requires a finding by the state that it is in the public interest before allowing multiple eligible carriers into rural areas.

The Commission must use these clear cut provisions to guide its rulemaking, and these provisions clearly eliminate many of the proposals advanced in comments. They also dictate what must be enforced.

The relationship between support payments and historical cost must be maintained to comply with the Act. The requirement for cost allocation rules and accounting safeguards clearly demonstrates Congress's intent to use historical cost as a basis for determining universal services support. Proxies, models, bidding, and projections of long run incremental cost can not be used. If USF payments exceed actual historical cost, funds are not being used for the "services for which the support is intended," a clear violation of the Act. If telcos recover less than their historical cost, their revenue will be insufficient to "preserve and advance universal service," also a violation of the Act.

Regulation of eligible carriers, along with reporting and monitoring, is also a prerequisite to obtaining support. Reporting and monitoring are needed to ensure that USF funds are used only "for the provision, maintenance, and upgrading of facilities and services for which the support is intended." New entrants must comply with cost allocation rules and accounting safeguards mandated in the Act before they can become eligible for universal service support.

The Act separates consumers in rural, insular, and high cost areas from consumers in areas dominated by Bell Operating Companies. It intentionally shields small, rural LECs from

certain requirements. The Act requires a specific finding by the state commissions that it is in the public interest before allowing multiple eligible carriers to serve any rural area.

#### **WHAT THE ACT DOES NOT REQUIRE**

The Act does not require that access charge regulations be reformed as a prerequisite to establishing Universal Service support mechanisms.

The Act does not require that historical cost and Generally Accepted Accounting Principles (GAAP) be abandoned in determining support payments. To the contrary, the Act requires accounting safeguards and cost allocation rules.

It does not require multiple eligible carriers (or portability of subsidies) in rural areas. In fact, it requires states to make specific findings that it is in the public interest before allowing multiple eligible carriers in rural areas.

It does not require that small rural telcos be treated like Bell Operating Companies. Even AT&T noted that rural telcos should have different rules than the rest of the industry.

It does not require that support be limited in the name of promoting efficiency, or that the size of the Universal Service Fund be artificially restricted. In fact, the Act makes artificial limitations illegal by requiring that support be sufficient to preserve and advance universal service. Costs are unavoidably high in rural Alaska because of distance, climate, population

density, and terrain. There are few economies of scale. Some examples of the population densities faced by Alaskan LECs are:

	<u>Square Miles</u>	<u>Access Lines</u>	<u>Lines/ Sq. Mi.</u>
Interior Telephone Company	4,500	4,100	.911
Mukluk Telephone Company	27,000	1,000	.037
United Utilities, Inc.	70,000	4,300	.067
Arctic Slope Telephone Company	92,000	1,900	.021
Matanuska Telephone Association	9,730	37,000	3.803

Of the 241 communities served by ATA's members, the access line distribution is:

	<u>Number of Communities</u>	<u>Percentage of Communities</u>
Over 100,000 lines	1	> 1 %
10,000 to 99,999 lines	3	1 %
1,000 to 9,999 lines	31	13 %
200 to 999 lines	32	13 %
50 to 199 lines	114	47 %
2 to 49 lines	60	25 %

In short, 3/4 of Alaska's communities have fewer than 200 lines!

It is difficult to apply efficiency incentives in a high-cost area like Alaska.

#### **WHAT THE ACT DOES NOT ALLOW**

The Act does not allow new entrants to receive preferential treatment. The FCC itself noted (CC Docket No. 96-98 NPRM at p. 7, item 11) "Nothing in the 1996 Act suggests Congress intended to divest incumbent LECs of all or part of their local networks, even if some portions continue to be natural monopolies. Indeed, the Act expressly confirms that the

incumbent LECs may earn a reasonable profit for the interconnection services and network elements they provide." It further states (CC Docket No. 96-98 NPRM at p. 7, item 12) "the purpose ....of the 1996 Act is not to ensure that entry takes place irrespective of costs, but to remove the statutory and regulatory barriers and economic impediments that inefficiently retard entry, and to allow entry to take place where it can occur efficiently. This entry policy is competitively neutral; it is pro-competition, not pro-competitor."

All regulations must be competitively neutral. Proposals for portability of support payments while requiring resale of LEC services at wholesale, below-cost rates, provide an unbeatable competitive advantage to anyone but the incumbent. This is a clear violation of the Act, and these proposals must be rejected.

LECs relied on existing support mechanisms when making investments in infrastructure. Changes in support mechanisms must be accompanied by a sufficient transition period to allow full recovery of the incumbent LECs embedded costs. Failure to allow recovery of embedded investment will violate the Act, since such a failure will jeopardize the financial viability of many rural LECs, and thereby threaten the availability of universal service.

## ACCESS REFORM

USF support is necessary to keep telecommunications service affordable in high cost areas.

Increasing the monthly subscriber line charge (SLC) goes counter to this objective.

"Affordability" is closely linked to the total flat-rate monthly phone bill, including SLC, flat-rate local charges, and surcharges. Raising the SLC goes against the principles of affordability stated in Section 254.

Many IXC's argue that the SLC should be raised to transfer the cost of the loop directly to the end-user and that toll access should be priced as a by-product of local service. It makes no sense to further reduce the cost that IXC's pay for access while increasing the flat-rate monthly cost to the end-user.

Respectfully submitted this 7th day of May 1996.



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